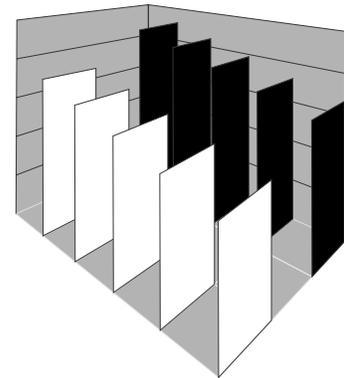


# 1



## *Executive Summary*

This is the 18<sup>th</sup> semiannual report issued by the Office of Inspector General (OIG), Federal Emergency Management Agency (FEMA), since becoming a statutory Inspector General office in April 1989. It is issued pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended, and covers the period from October 1, 1997, through March 31, 1998. All activities and results reported fall within the reporting period unless otherwise noted.

We conducted reviews and investigations directed at meeting the strategic goals of the agency. We reviewed acquisition and relocation projects under the Hazard Mitigation Grant Program. We devoted significant resources to supporting disaster relief efforts, specifically the New England ice storms, and Super Typhoon Paka. We conducted several reviews of disaster costs and grant recipients' compliance with applicable laws and regulations. We reviewed the administration of insurance requirements in the Public Assistance Program as well as interest earned by insurance companies participating in the National Flood Insurance Program. We investigated numerous allegations of fraud and abuse by disaster recipients and false claims by Agency personnel. We continued to support Agency managers to improve the overall operations of the Agency through participation on task forces.

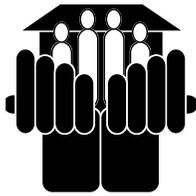
Our audits, inspections, and investigations were instrumental in FEMA management's deobligating and recovering \$15.6 million, and in agreements to recover and deobligate an additional \$6.6 million. We issued 51 audit and inspection reports; processed an additional 68 reports issued by non-FEMA auditors; closed 67 investigations; arrested and indicted 15 individuals/companies; convicted 7 individuals; and received 561 hotline complaints.





# 2

## *Federal Emergency Management Agency*



FEMA is the Federal agency charged with building and supporting the Nation's emergency management system. It works in partnership with groups such as State and local emergency management agencies, fire departments, other Federal agencies, the American Red Cross and other volunteer organizations. FEMA is authorized 2,488 full-time employees, who assist individuals, families, communities, and States throughout the disaster cycle. They help to plan for disasters, develop mitigation programs, and meet human and infrastructure needs when major disasters occur. They work at FEMA headquarters in Washington, D.C.; 10 regional offices and facilities around the country and in the Caribbean and Pacific; FEMA's National Emergency Training Center in Emmitsburg, Maryland; National Teleregistration and Processing Centers in Hyattsville, Maryland, and Denton, Texas; and Mt. Weather Emergency Assistance Center in Berryville, Virginia. FEMA also maintains a cadre of temporary disaster employees ready to help when disasters occur.

The U.S. Fire Administration and the Federal Insurance Administration (FIA) also are under FEMA's jurisdiction. The Fire Administration supports the Nation's fire services and emergency medical services communities with training, public education, and research in fire protection technologies and emergency response procedures. The FIA provides flood insurance to residents and businesses in communities that agree to enforce floodplain management practices. More than 18,700 communities participate in the National Flood Insurance Program (NFIP), which has more than 3.9 million home and business policies in effect.



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# 3



## *Office of Inspector General*

Congress enacted the Inspector General Act in 1978 to ensure integrity and efficiency in Government. A 1988 amendment to the Act (Public Law 100-504) created the position of Inspector General in FEMA, subject to presidential appointment and senatorial confirmation. Before April 16, 1989, when the law became effective, the OIG was established administratively and the Inspector General was appointed by the Director of FEMA.

The statute conferred new authorities and responsibilities on the OIG, including the power to issue subpoenas; responsibility for various reports, such as this semiannual report; and authority to review relevant proposed laws and regulations to determine their potential impact on FEMA programs and operations. The law also mandates that the OIG audit and investigate FEMA programs.

The OIG has three divisions - Audit, Inspections, and Investigations - and was authorized 60 full-time equivalent positions during this semiannual period. It also employs a cadre of disaster employees on temporary appointments to audit or investigate disaster-related matters.

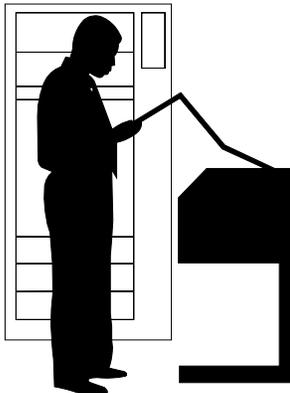


# 4



## *Summary of Significant OIG Activity*

During this reporting period, the OIG developed its Annual Performance Plan for FY 1998. The Plan, reflecting the agency's strategic plan, identifies the interests and concerns of FEMA senior managers, the Congress, and the Inspector General based on prior experience, priorities, and future objectives. It includes program and efficiency reviews of FEMA programs and operations, and continued involvement in all aspects of development of FEMA's financial management system and acquisition of major information system components.



The Agency established three strategic goals: (1) protect lives and prevent loss of property from all hazards; (2) reduce human suffering and enhance recovery of communities after disaster strikes; and (3) ensure that the public is served in a timely and efficient manner. The following are the most significant audits, inspections and investigations performed by the OIG to assist the agency in meeting those goals.

### **STRATEGIC GOAL I: PROTECT LIVES AND PREVENT LOSS OF PROPERTY FROM ALL HAZARDS**

The national emergency management community works to protect lives and prevent loss of property through pre-disaster preparedness and mitigation. Mitigation protects life and property and reduces risks from hazards over the long term. FEMA accomplishes this goal through actions such as supporting local government officials' efforts to (1) encourage the building of structures in locations that reduce the chances of incurring disaster damage; (2) develop, adopt, and enforce appropriate building codes and land-use planning standards; and (3) correct inappropriate building design. In support of this goal, the OIG reviewed the hazard mitigation buyout program.

### **Hazard Mitigation Buyouts**

FEMA makes grants to States for hazard mitigation through the Hazard Mitigation Grant Program (HMGP). Many types of mitigation projects are eligible for funding. The OIG reviewed HMGP acquisition and relocation projects, commonly referred to as “buyout projects.” In a typical buyout project the community purchases flood-damaged homes and either demolishes or moves the structures to a site

outside the floodplain. The acquired land is required to be maintained as open space. Our review revealed the need for a number of improvements to the buyout program. These included more program guidance, better cost-benefit analysis methodologies, resolution of conflicts in FEMA/Federal policies, refinements to policies relating to agricultural easements, clear criteria for measuring buyout program results, and better quality data in the HMGP database.

## **STRATEGIC GOAL II: REDUCE HUMAN SUFFERING AND ENHANCE RECOVERY OF COMMUNITIES AFTER DISASTER STRIKES**

The Federal Government supplements the human, physical, and monetary resources of States, local governments, and disaster relief organizations in alleviating the consequences of a disaster or emergency when the resources of those entities - the first responders - are insufficient to respond effectively. In so doing, FEMA coordinates the work of 27 Federal agencies and departments that support the affected areas by supplying goods and services such as shelter, transportation, electrical power, potable water, and food. FEMA also provides monetary subsidies in the form of grants to individuals and States that incur losses and damage consequent to disasters and emergencies. We have dedicated significant resources to validating disaster assistance costs that were claimed to be attributable to a disaster or emergency, with the following results:

- Completed one internal management review.
- Completed 44 external reviews which questioned costs totaling \$13.8 million, and identified \$1.9 million that could be more effectively used.

### **Review of FEMA’s Implementation of Insurance Requirements in the Public Assistance Program**

Congress indicated clearly in the Stafford Act that insurance should be the major method used by State and local governments and certain private nonprofit orga-

nizations to protect public structures from the effects of disasters. General property and flood insurance is widely available and is recognized as effective in reducing financial losses caused by a disaster. FEMA’s Public Assistance Program is designed to provide supplemental financial assistance to State and local entities.

The purpose of our review was to determine whether FEMA could improve its administration of the insurance requirements in the Public Assistance Program. We identified the following opportunities for FEMA to streamline the public assistance application, review, and approval process: (1) recruit a cadre of insurance specialists; (2) require all pertinent insurance information at the time of application for assistance; and (3) consider anticipated insurance proceeds in determining eligibility for funding at the beginning of the process. We also believe that FEMA needs to clarify its rules governing waivers of requirements for insurance that are granted by State insurance commissioners. We are recommending that FEMA take action to address the issues identified in our report.

Recognizing the need to address insurance practices in the Public Assistance Program, FEMA also created a task force to recommend reforms. The task force issued a draft report in January 1997 that included fifteen recommendations to improve the insurance process. For example, to reduce FEMA's financial exposure, the Task Force recommended that FEMA (1) eliminate payments for the deductible portion of insurance proceeds, (2) require full insurance coverage on a damaged facility, and (3) require applicants to obtain insurance rather than make a commitment to obtain insurance prior to funding a public assistance grant. We believe these and several other recommendations of the Task Force are prudent and merit further consideration.

## **HURRICANES**

### **Virgin Islands Housing Authority**

The Virgin Islands Office of Management and Budget awarded the Virgin Islands Housing Authority \$7.1 million to construct 60 buildings for temporary housing and storage facilities for individuals displaced as a result of Hurricane Marilyn. The Housing Authority claimed \$13 million. We questioned \$6.2 million due to ineligible charges and poor contracting practices and cost controls. We recommended that FEMA disallow the questioned costs.

### **Kauai County, Hawaii**

The Hawaii Office of Civil Defense awarded \$11 million to Kauai County to collect and remove debris deposited by Hurricane Iniki in September 1992. The County claimed \$11.5 million. We



questioned \$1.7 million, consisting of overstated labor costs, unallowable surcharges, costs outside the scope of the projects, overstated equipment rental rates, unsupported costs, and duplicate claims. We recommended that FEMA disallow the questioned costs.

### **University of Puerto Rico**

The Commonwealth of Puerto Rico awarded the University of Puerto Rico \$1.4 million for debris removal, emergency protective measures, and to restore facilities and equipment damaged by Hurricane Hugo. The University's claim of \$975,250 included \$269,900 of ineligible and unsupported charges. We recommended that FEMA disallow the questioned costs.

### **Indictments of Debris Removal Contractors, Virgin Islands**

A joint investigation with the Federal Bureau of Investigation (FBI) resulted in indictments of two contractors and their closely held corporation on 14 counts of criminal activity. FEMA awarded public assistance disaster funds to the Territory of the Virgin Islands as a result of Hurricane Marilyn. A portion of the funds was allocated for debris removal. The contractors submitted false invoices/billings for some debris removal. Among the 14 counts in the indictment were 3 counts of money laundering and a single count of criminal forfeiture. The criminal forfeiture count permits the government to seize assets obtained through fraudulent activities. No trial date has been set.

### **Florida Department of Military Affairs**

The Florida Department of Community Affairs awarded the Florida Department of Military Affairs \$5 million for emergency protective measures as a result of Hurricane Erin. The Department claimed \$4.9 million. The claim included \$251,600 of ineligible and unsupported costs. We rec-

ommended that FEMA disallow the questioned costs.

### **North Carolina Department of Transportation**

The North Carolina Division of Emergency Management awarded the North Carolina Department of Transportation \$8 million to remove debris and to repair public roads and buildings damaged by Hurricane Hugo. The Department's claim of \$7.1 million included questioned costs of \$256,500 resulting from unrelated project work, incomplete small projects, and a math error. We recommended that FEMA disallow the questioned costs.

### **Okaloosa County Board of County Commissioners**

The Florida Department of Community Affairs awarded the Okaloosa County Board of County Commissioners \$9.6 million to repair damages caused by Hurricane Opal. The Department claimed \$5.6 million. The claim included \$149,700 of ineligible and unsupported costs. We recommended that FEMA disallow the questioned costs.

### **Joint Criminal Investigation with Puerto Rico Police Department**

FEMA OIG is participating in several joint criminal investigations with various Puerto Rico Police departments and the U.S. Postal Inspection Ser-



vice in Puerto Rico. FEMA's Individual Assistance program awarded disaster funding to eligible applicants as a result of Hurricane Hortense in 1996. The Puerto Rico Commonwealth, Department of Justice is prosecuting the following cases:

- An Individual and Family Grant (IFG) check for \$7,600 was mailed to an eligible applicant, but the check was sent to the wrong address. The FEMA OIG arrested the recipient of the check, who confessed to receiving and cashing it.
- A recipient removed and cashed a \$1,600 check from an applicant's mailbox. The individual was arrested and later confessed to the theft.
- A municipal official, responsible for helping disaster victims to locate government checks they did not receive, was arrested on one count of theft. The individual allegedly stole an undelivered IFG check sent to a disaster victim.

## **EARTHQUAKE**

### **Los Angeles, California**

An individual fraudulently applied for a FEMA disaster assistance grant and a Small Business Administration loan after the Northridge Earthquake. A Federal judge sentenced the individual to 18 months in jail. The applicant was also fined and ordered to complete 3 years supervised probation upon release from jail.

### **Fraudulent Claim for Per Diem**

A Technical Assistance Contractor assigned to the Northridge Long Term Recovery Office fraudulently collected per diem. The individual gave a permanent address outside a 50-mile radius of the assigned duty station; however, the OIG review found that the individual lived locally and was not entitled to the per diem. The contractor repaid FEMA \$21,500.

### **Tarzana, California**

An individual was charged and subsequently pled guilty in Federal Court in Los Angeles, California, to one count of fraudulently obtaining \$5,000 in Federal disaster relief following the Northridge Earthquake. The individual was sentenced to 300 hours of community service, one year of probation, three years' supervised release; and was fined.

## **FLOODS**

### **Alaska Division of Emergency Services**

FEMA awarded the Alaska Division of Emergency Management \$51.7 million to remove debris; repair homes, roads, and facilities; and to replace food supplies damaged by the Koyukuk Floods in August 1994. The Division claimed \$52 million. We questioned \$1.7 million in unsupported, excessive, unallowable, and unauthorized charges. We recommended that FEMA disallow the questioned costs.

### **City of Punta Gorda, Florida**

The Florida Department of Community Affairs awarded the City of Punta Gorda \$2.5 million to remove debris and to repair facilities damaged as a result of flooding in June 1992. The claim did not acknowledge that another funding source was available to cover \$525,000 of disaster-related repair costs. The claim also included \$12,196 of excessive fringe benefit and general administrative charges. We recommended that FEMA disallow \$403,000, the Federal share of questioned costs.

### **Kingwood, Texas**

An individual applied for disaster assistance claiming that he was the resident owner of property in Kingwood, Texas, damaged by a flood. The individual received Individual and Family Assistance and Disaster Housing assistance to replace items lost and to repair his damaged property. A subsequent review disclosed that the individual did not own or reside at the property. A demand letter was issued to the individual pursuant to the False Claims Act. When the individual did not respond to the letter, a complaint was filed in United States District Court, Southern District of Texas. The individual also failed to appear in District Court, consequently, the court rendered a default judgment against the individual for \$43,900.

### **Tacoma, Washington**

An individual was charged and subsequently pled guilty in Federal Court in



Tacoma, Washington to one count of fraudulently obtaining \$8,400 in federal disaster relief funds. The subject was sentenced

to six months in jail, 36 months probation, and ordered to repay the \$8,400.

## **STORMS**

### **North Carolina Department of Transportation**

The North Carolina Division of Emergency Management awarded the North Carolina Department of Transportation \$4.1 million to remove snow and debris from public roads and rights-of-way caused by the 1993 snowstorm. The Department claimed \$4.3 million. The claim included \$234,900 of ineligible and unsupported costs. We recommended that FEMA disallow the questioned costs.

### **Nebraska Public Power District**

The Nebraska Emergency Management Agency awarded \$21 million to the Nebraska Public Power District for emergency and permanent repairs to overhead power lines and transmission lines damaged by severe storms between June and August 1993. The District claimed \$18 million. We questioned \$194,000, consisting of duplicate charges and a small project that was not completed. We recommended that FEMA disallow the questioned charges.

### **North Carolina Department of Transportation**

The North Carolina Division of Emergency Management awarded the North Carolina Department of Transportation \$2.2 million for removal of snow that resulted from the winter blizzard of January 1996. The Department's claim of \$2.2 million included \$215,000 of excessive, ineligible, and unrelated project charges. We recommended that FEMA disallow the questioned costs.

### **Tourism Business Employees, Guam**

The Guam Department of Labor recouped \$4,000 as a result of an OIG investigation of a Guam-based tourism business whose owner made a false claim under Disaster Unemployment Assistance. Three employees collected seven weeks of unemployment assistance after a typhoon because their employer allegedly sustained severe damage as a result of the typhoon that required him to temporarily close his business. The investigators found that the business sustained only minimal typhoon-related damage and should not have been closed. Further review found that a slow-down in tourism might have caused the employee layoffs. The case is pending.

### **Dededo, Guam**

An individual submitted a claim for a damaged dwelling that she owned but was not living in at the time of the disaster. She received Temporary Housing funds in the amount of \$2,600. She also was scheduled to receive \$13,400 in Individual and

Family Grant funds but the claim was cancelled as a result of an OIG investigation. The OIG presented the case to the U.S. Attorney, who is currently negotiating a plea agreement with the defendant's attorney. We anticipate that the case will result in cost savings of \$16,000.

### **Prosecution of Debris Removal Contractors, Alabama**

An OIG review of disaster funds awarded to the State of Alabama for debris removal resulted in the criminal prosecution of three contractors and civil actions against the contractors and a corporation. The OIG review found that the contractors removed non-storm-related debris and claimed the costs against the FEMA grant. We also determined that the claim was paid by FEMA. To date, one criminal trial has been completed, resulting in a guilty plea by the defendant.

## **OTHER DISASTER-RELATED ACTIVITIES**

### **Review of Urban Search and Rescue Systems, Metro-Dade County Fire and Rescue Department, Florida**

FEMA awarded \$2.6 million to the Metro-Dade County Fire and Rescue Department. The Department claimed \$1.4 million, of which the OIG questioned \$275,060 in duplicate claims for overtime, incorrect calculations, and excessive charges. We recommended that the Response and Recovery Directorate disallow the questioned cost and recover \$275,060 already disbursed to the Department.

### **Fraud Awareness Briefing**

The FEMA OIG conducted Fraud awareness briefings, which resulted in referrals of fraud cases, with officials from the Government of Guam. Complaints to the FEMA and Government of Guam hotlines also have resulted in numerous fraud cases. The FEMA OIG acted as clearinghouse for disaster-related frauds involving the food stamp program, local price gouging, and falsified loan applications. We referred such information to the appropriate Federal and local law enforcement agencies.

### **Guam Task Force**

The President declared a major disaster in the Territory of Guam due to damage from Super Typhoon Paka. Approximately \$200 million in Federal individual and public assistance grant funds will be disbursed in response. Several Federal and local agencies assigned investigators to work with FEMA to investigate allegations of fraud in connection with typhoon-related claims. The agencies providing personnel included the Department of Agriculture, Small Business Administration, Marshal's Service, Customs Service, Immigration and Naturalization Service, Federal Bureau of Investigation, Postal Inspection Service, U.S. Attorney's Office, Guam Attorney General's Office, Guam Police Department, Guam Department of Labor, and Guam Customs and Quarantine.

### **Repetitive Loss Task Force**

We are participating on a Task Force on repetitive flood insurance losses. The purpose of the Task Force is to explore alter-

natives for reducing the problem of repetitive loss payments for the same property covered by flood insurance.

### **Virgin Islands Task Force**

FEMA OIG has lead responsibility for a disaster fraud task force under the control of the U.S. Attorney, District of the U.S. Virgin Islands. The task force was organized to investigate various disaster-related frauds. The principal agencies participating in the task force include the Federal Bureau of Investigation, Army (Criminal Investigation Division), and Small Business Administration (OIG). A joint investigation by FEMA and SBA OIG offices resulted in the conviction of an individual for filing a false application for an SBA \$25,000 disaster loan as a result of Hurricane Marilyn.

### **Puerto Rico Task Force**

FEMA OIG has lead responsibilities involving a disaster fraud task force under the control of the U.S. Attorney, District of Puerto Rico. Several ongoing investigations into fraudulent claims in FEMA's individual assistance and public assistance programs are being pursued and prosecuted by the U.S. Attorney's office. A major participant in this task force is the U.S. Postal Inspection Service. Several other Federal agencies also participate on the task force.

### **Fraud Hotline Website**

The OIG designed and implemented a Fraud Hotline page on the Internet to provide another avenue for the public to re-

port fraud, waste, and abuse involving FEMA contracts, programs, or personnel.

### **Throth Award**

The OIG's Fraud Alert Video won the Throth Award in the category for Public Service. The Throth Award is given by the Public Relations Society of America, National Capital Chapter, to applaud the best in communications.

### **Business Process Reengineering Project**

The Business Process Reengineering project is a major effort within FEMA to streamline and enhance the effectiveness of the Public Assistance grants program. We are active participants in this project. In January, we participated in tabletop exercises designed to test the new processes being developed. In April, we will participate in a pilot test during a disaster.

### **OIG Assistance Given to Grant Recipient**

OIG staff in our Western District Audit Office met with representatives from California State University, Northridge to discuss grant audit procedures. Specifically, the auditors discussed records, accounting system, and eligibility requirements for the University to be entitled to federal monies. As a result of the OIG's efforts, the University repaid the Government \$6 million in interest accrued on an advance of FEMA funds. We identified this savings in Appendix 9 of this report.

### **Disaster Workforce Committee**

The OIG participated as a member on the Disaster Workforce Committee. The Committee addressed issues of staffing, training, policies and procedures, and lines of responsibility and accountability for Disaster Assistance Employees and Special Disaster Assistance Temporary Employees.

## **STRATEGIC GOAL III: ENSURE THAT THE PUBLIC IS SERVED IN A TIMELY AND EFFICIENT MANNER**

FEMA is striving to become an efficient, customer-driven organization. It seeks to make customers' needs the bases for agency long-term planning, day-to-day management, and decision-making. The third strategic goal underlies this concept and serves as a guide for FEMA's internal management. The goal promotes high-quality service while FEMA continues to reduce the costs of administering and delivering services. The goal also is expected to result in a high degree of customer and employee satisfaction, loyalty, and support for FEMA. Action to achieve this goal includes maintaining a high level of stewardship for Federal funds, which means improving management controls over FEMA programs and finances. We conducted five reviews of FEMA programs and operations to determine whether the activities reviewed were operated economically and efficiently, and within the governing regulations and procedures. As a result of these reviews, FEMA saved \$2.9 million.

## **FINANCIAL MANAGEMENT**

### **Review of Management Controls over the Commercial Credit Card Program**

We reviewed the management controls over the commercial credit card program at the request of FEMA's Chief Financial Officer. FEMA's implementation of the program is reasonably successful. Employees throughout the Agency used the credit cards primarily to purchase small items needed for day-to-day operations. Cardholders and approving officials followed most regulations. There was no evidence of systemic abuse of the credit cards. There were, however, areas in which management controls need to be strengthened. The most significant issue concerned individuals who have left the Agency without cancellation of their cards. Other needed improvements include periodic validation of authority to have a card or to be an approving official, better training and guidance, and revised management reports that are easier to read and contain additional information.

We recommended that the Chief Financial Officer (1) develop and implement controls to ensure that only authorized employees possess credit cards, (2) require employees to be trained prior to becoming cardholders or approving officials, (3) update training periodically, and (4) require the credit card company to provide improved reports.

### **Review of Interest Earned by Insurance**

### **Companies Participating in the National Flood Insurance Program**

At the request of the FIA, we reviewed four companies participating in the NFIP's Write Your Own (WYO) program. For a fee, they market and service flood insurance policies on behalf of the NFIP. Recent audits disclosed that some WYO companies earned and retained interest on NFIP funds. The purpose of the review was to determine how much interest these companies earned.

The review disclosed that between Fiscal Years 1994 and 1997, three of the four companies earned interest totaling \$1.8 million on NFIP funds, including interest compounded through December 1997. Of this amount, the companies remitted \$614,000 to the NFIP. As a result, the companies still owe the program \$1.2 million.

A formula was developed to project interest earned between Fiscal Years 1984 (the inception of the WYO Program) and 1993. Using the formula, we determined that the three companies earned \$3.6 million. Of this amount, they paid NFIP \$1.9 million; therefore, they still owe the program \$1.7 million. We advised the FIA to aggressively pursue the amounts owed.

### **National Emergency Management Information System (NEMIS)**

The OIG continues to participate in the National Emergency Management Information System (NEMIS) management

steering group. FEMA will use NEMIS to coordinate and provide services to disaster victims. It comprises subsystems for Human Services, Infrastructure Support, Hazard Mitigation, Emergency Coordination, and Emergency Support. By attending the steering group meetings, we are able to provide technical assistance to prevent problems.

### **Map Service Center Source Evaluation Board**

The OIG participated as a non-voting member on the agency's Map Service Center Source Evaluation Board. The board selects the contractor to manage FEMA's Map Service Center, which distributes FEMA's Flood Insurance Rate maps and related products.

## **HUMAN RESOURCES**

### **Falsified Time and Attendance Records**

A FEMA Headquarters employee transmitted sixteen fraudulent Time and Attendance reports to the National Finance Center (NFC), allowing her to receive in excess of \$52,000 in fraudulent overtime

payments. She was able to carry out her scheme over an extended period, since she was the alternate timekeeper for the FEMA office being defrauded. After she transmitted her fraudulent overtime claims, she deleted the overtime from her payroll record so that payroll reports would not show the fraud. The employee was indicted and arrested on sixteen counts of wire fraud and one count of theft. FEMA recently implemented a new payroll reporting system that allows the supervisor to review all overtime claims submitted to NFC, reducing the likelihood that this type of incident could occur again.

### **Debts Due FEMA**

The Report on the Supplemental Appropriations and Rescissions Bill of 1980, issued by the Senate Committee on Appropriations, requires the Inspector General to summarize amounts owed FEMA and debts that were written off. The Office of Financial Management, which is responsible for debt collection, provided the following information on loans and accounts receivable. Data as of March 31, 1998, were not available at publication time.

<b>Date</b>	<b>Owed</b>	<b>Overdue</b>
June 30, 1997	\$326,651,819	\$24,190,980
December 31, 1997	\$273,518,160	\$36,452,203
Increase (+) or Decrease (-)	(\$53,133,659)	\$12,261,223

OEM reported that debts of \$11.4 million were written off during the 6-month period ending December 31, 1997.



# 5



## *Other OIG Activities*

### **Hotline Complaints**

We received 561 Hotline calls during this reporting period. The majority consisted of allegations concerning Super Typhoon Paka in Guam in December 1997, the Ice Storm in New England in January 1998, and floods and tornadoes caused by El Niño throughout the Southern and Western U.S. in January, February, and March 1998. We continue to receive allegations involving hurricanes Opal, Fran, and Andrew; and the Northridge Earthquake. Allegations included:

- Disaster assistance applicants used false names and multiple and/or fictitious addresses.
- Disaster assistance applicants claimed losses they did not incur or that they were not entitled to claim.
- Applicants did not use claim money for its intended purposes.
- Townships, cities, and counties mis-spent FEMA grants due to incompetence or corruption.

- Personnel and management practices at FEMA facilities were questionable.
- Applicant neighbors who received funds to repair a common bridge or road refused to cooperate or spend the money as intended.

### **Oversight of Non-FEMA Audits**

We processed 68 audit reports prepared by non-FEMA auditors on FEMA programs and activities in compliance with our responsibility to review audit reports prepared by non-FEMA auditors and to monitor actions taken to implement the recommendations. Of the 68 reports, 46 were prepared pursuant to OMB Circular A-128, "Audits of State and Local Governments"; 19 were prepared pursuant to OMB A-133, "Audits of Universities and Non-Profits Institutions"; and 3 were prepared by the Defense Contract Audit Agency pursuant to Federal Acquisition Regulations. Three of the 68 audits questioned costs totaling \$276,700, while 1 identified \$510,800 in funds that could be put to better use.

## **General Accounting Office Activities**

### **Reports in Process**

The General Accounting Office (GAO) began the following reviews in FEMA during the 6-month period ending March 31, 1998:

- Review of Appeal Against Destroying Buildings That Were Bought Out By FEMA
- Review of Agency Compliance with Year 2000 Requirements
- Review of FEMA's Annual Performance Plan
- Survey of Mitigation and Project Impact Grants.

### **Reports Issued**

GAO issued the following report and testimony involving FEMA activities during this reporting period:

- DISASTER ASSISTANCE Guidance Needed for FEMA's "Fast Track" Housing Assistance Process
- Testimony Titled "DISASTER ASSISTANCE Information on Federal Costs and Approaches for Reducing Them"
- Testimony Titled "DISASTER ASSISTANCE Information on Federal Disaster Mitigation Efforts"

## **Audit Reports Unresolved Over Six Months**

Timely resolution of outstanding audit recommendations continues to be a priority at FEMA. The twelve audit reports containing recommendations unresolved for more than 6 months are reported below.

- Audit of Flood Insurance Reinspection Activities, Audit Report H-03-93, issued February 23, 1993.

The OIG issued a report in February 1993 on Flood Insurance Reinspection Activities in FIA. We reported that FIA was not getting the potential benefits of its reinspection effort on WYO claims because reinspection procedures did not provide for adjusting claims for judgmental errors such as overscoping, depreciation, cost verification, and repairs versus replacement. Also, most claims were being reinspected after payment was made to the insured. We recommended that FIA develop and implement uniform reinspection procedures that would require General Adjusters to comment on both judgmental and non-judgmental items. We also recommended that the WYO arrangement be changed to reflect FIA's review of judgmental items. FIA agreed with our recommendations and stated that a pilot test would be carried out for a one-year period to assess the potential savings resulting from a review of judgmental items. As a result, we considered the recommendations to be resolved. Our follow-up on the status of the recommendations, however, revealed that FIA did not fol-

low through with implementation. We reclassified the recommendations as unresolved and requested that FIA submit a revised implementation plan to address the unresolved recommendations.

- Audit of the Accuracy of Flood-Zone Ratings, Audit Report H-01-95, issued January 6, 1995.

In January 1995, the OIG issued an audit report on the Accuracy of Flood-Zone Ratings. We reported that there were zone misratings in at least 27 percent of insurance policies in our random statistical sample. These errors were attributed to the complexity involved in determining a property's flood-zone and elevation requirements as well as understanding the administrative grandfathering rules that allow policyholders to pay lower premiums than their risk of flooding warrants. FIA also did not have a quality control program to verify that insurance agents use correct factors to calculate premiums. We recommended that FIA assess the impact of eliminating administrative grandfathering and, if feasible, begin phasing it out. We also recommended that FIA establish a quality control program to monitor the accuracy of premium ratings. FIA agreed with the recommendations. Our follow-up on the status of the recommendations, however, revealed that FIA did not follow through with implementation. Again, we have reclassified the recommendations as unresolved and have requested that FIA submit a revised implementation plan to address the unresolved recommendations.

- Management Letter on Fiscal Year 1996 Financial Statements, Audit Report H-C-17-97, processed September 29, 1997.

We processed a management letter in compliance with the Chief Financial Officer's Act of 1990. We made 13 administrative recommendations to improve internal controls and FEMA's compliance with applicable laws and regulations. We anticipate resolving the recommendations in June 1998.

- Audit of Vulcan Services, Inc., FEMA Contract EMW-92-C-3857, Audit Reports E-7-95, issued December 13, 1994; and E-26-95, issued March 31, 1995.

The initial audit questioned \$1.2 million of the \$2.8 million claimed by the contractor. An additional \$1.2 million in disputed inspection fees was referred to the contracting officer. The second report provided specific details on costs claimed for inspection services. FEMA's Office of General Counsel referred the case to the Department of Justice for action. We anticipate that the recommendations will be resolved by December 1998.

- Audit of Disaster Assistance Funds awarded to Dade County, Florida, Audit Report E-29-97, issued July 21, 1997.

The audit questioned \$1.7 million of costs claimed. The County's claim included unreasonable and unnecessary costs for hauling soil and watered-down debris, excessive and improper charges for fringe benefits and equipment, and

unsupported costs. We recommended that FEMA disallow the questioned costs claimed. We anticipate that the recommendations will be resolved by April 1998.

- OMB Circular A-128, Audit Report for the Commonwealth of Massachusetts, Audit Report E-S-02-97, Year Ending June 30, 1996.

The audit questioned \$632,000 in ineligible and unsupported costs of the \$20 million awarded to the State by FEMA. The auditors also found that the Massachusetts Emergency Management Agency (MEMA) did not have a system for monitoring subrecipient Single Audit reports in accordance with the requirements of the Single Audit of 1984. We anticipate resolving the recommendations by May 1998.

- Audit of County of Kauai, Hawaii, FEMA Number-961-DR-HI, Audit Report W-03-97, issued October 28, 1996; and W-15-97, issued March 14, 1997.

We issued two reports regarding greenwaste removal in the County of Kauai. We questioned \$238,700 in the first report and \$720,000 in the second report due to unsupported and ineligible costs. Region IX and the Pacific Area Office (PAO) originally concurred with the audit findings; however, they stated that additional information came to their attention that would justify some of the costs. The new PAO Director, Acting Region IX Director, and our office are working to resolve the issues. We an-

icipate resolving the recommendations by June 1998.

- State Controllers Audit of the City of Calabasas Disaster Related Costs, FEMA 935-DR-037-09589, Audit Report Number W-D-37-97, issued September 15, 1997.

The auditors disallowed \$199,000 under large projects for a contract obtained without the required performance bond. The California Office of Emergency (OES) disagreed with the Auditor's disallowance stating that, although the subgrantee did not secure the bonds, the contractor performed the work in a satisfactory manner. We are working with OES and Region IX to resolve this issue. We anticipate resolving the recommendation by May 1998.

- Single Audit Report of the State of South Dakota for the Fiscal Year Ended June 30, 1996, Audit Report Number W-S-23-97, issued July 8, 1997.

The Single Audit Report contained three administrative findings and recommendations relating to internal controls, payroll costs, and subrecipients audits. We are working with Region VIII to resolve these issues. We anticipate resolution by June 1998.

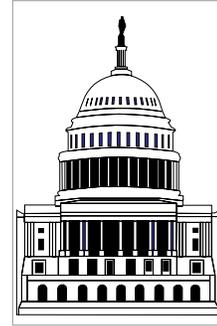
- Audit of the City of Simi Valley, California, FEMA Disaster 1008-DR-CA, Audit Report Number H-07-95, issued March 1, 1995.

The audit report contained six administrative recommendations relating to the City's compliance with FEMA regulations and guidelines. We are working with regional officials to resolve the recommendations and anticipate resolution by July 1998.



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# 6



## *Legislative and Regulatory Reviews*

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of FEMA and to make recommendations concerning their impact. In reviewing regulations and legislative proposals, the primary bases for our comments are the audit, inspection, investigation, and legislative experience. We also participate in the President's Council on Integrity and Efficiency, which provides a mechanism by which to comment on existing and proposed legislation and regulations that have a government-wide impact.

For this reporting period, we identified, monitored, and/or commented on more than five legislative proposals and Federal regulations that could affect FEMA. We also reviewed approximately eight proposed internal Agency directives, guidelines, and instructions.



































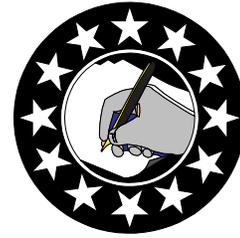








## 7



## *Index of Reporting Requirements*

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended in 1988, are listed below with a reference to the pages on which they are addressed.

<b>Requirements</b>	<b>Pages</b>
Section 4(a)(2)      Review of Legislation and Regulations	25
Section 5(a)(1)      Significant Problems, Abuses, and Deficiencies	7-17
Section 5(a)(2)      Recommendations with Significant Problems	7-17
Section 5(a)(3)      Prior Recommendations Not Yet Implemented 1/	
Section 5(a)(4)      Prosecutive Referrals	7-17
Section 5(a)(5) & Section 6(b)(2)      Summary of Instances Where Information Was Refused	None
Section 5(a)(6)      Listing of Audit Reports	32-43
Section 5(a)(7)      Summary of Significant Audits	7-17
Section 5(a)(8)      Reports with Questioned Costs	28, 32-43
Section 5(a)(9)      Reports Recommending That Funds Be Put to Better Use	29, 32-43

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1/ In FEMA's audit follow-up process, the Office of Financial Management monitors and reports on corrective actions after a decision has been reached. Corrective action information is transmitted in the Director's Report to Congress.

Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	28-29
Section 5(a)(11)	Revised Management Decisions	None
Section 5(a)(12)	Management Decision Disagreements	None

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